

U.S. Environmental Protection Agency, Region 10



Program Evaluation Report

Idaho Clean Water Revolving Fund

State Fiscal Year 1999

September 11, 2000

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Executive Summary

On June 30, 1999, the Idaho Clean Water State Revolving Fund (CWSRF) assistance portfolio consisted of 45 loans with a balance (including deobligations) of \$87,762,196. All CWSRF assistance thus far has been used for construction of wastewater treatment projects, of which 30 have initiated operations. As of the end of state fiscal year (SFY) 1999, approximately \$33 million in principal repayments, interest payments, and fund interest was available to support new project activity. In March, the Idaho CWSRF received an early principal repayment of \$21,635,000. This effectively tripled the amount of cash available to support new loans.

The Idaho Division of Environmental Quality (DEQ) has managed the CWSRF in general conformance with the Operating Agreement. Program strengths are:

1. Idaho DEQ staff provide good engineering and financial support to the CWSRF program.
2. The program has completed binding commitments well over the minimum required in the Clean Water Act.
3. Implementation of MBE/WBE guidance continues to be done in a correct manner.

The Environmental Protection Agency's (EPA) review also found several issues where additional action by Idaho DEQ would be appropriate:

1. Through SFY99 Idaho had used approximately 86% of the funds available to support the costs of administering the CWSRF. Current plans still anticipate that federal capitalization grants will end within the next several years. EPA recommends that DEQ determine how administrative costs of the fund will be financed once federal capitalization grants end.
2. The Idaho CWSRF may now be understaffed, given that the same central office staff (the loan program manager and the program accountant) is servicing both the CWSRF and the new Drinking Water State Revolving Fund. EPA requests that DEQ complete a staffing analysis to determine what staff is necessary to effectively implement the two revolving fund programs. We have attached, as Attachment IV, an outline of the functions that we believe are essential components of an effectively managed revolving fund program to serve as a guide for the requested analysis. DEQ has verbally agreed to provide EPA with this analysis by October 13, 2000.
3. Idaho CWSRF has maintained a 4% interest rate for eight of the past ten years, and a 4.5% rate during the other two years. While maintaining a constant interest rate has provided the borrowing community with stability, it does not appear to have had any ties to market fluctuations which control supply and demand. EPA recommends that DEQ change its method of setting interest rates from a controlled approach to a market based approach. One way is to tie the CWSRF interest rate to the bond buyer's index. EPA would be willing to research how other states are tying CWSRF interest rates to market rates so that we may provide DEQ with other concrete examples.

4. Idaho has historically limited its CWSRF to making loans to finance publicly-owned wastewater treatment works projects. As in many other states nonpoint sources such as agriculture and urban/suburban runoff are significant contributors to the state's water quality problems and, in many cases, are the primary causes for streams being listed as water quality limited under §303(d) of the Clean Water Act. We strongly applaud the state's efforts to develop a new nonpoint source water pollution control strategy and to work with the State Legislature to modify the state's enabling legislation allowing a broader range of potential water pollution abatement projects. Extensive guidance and a new solicitation process must still be developed in order to implement this programmatic change. EPA hopes to see Idaho's first nonpoint source abatement project on the FY02 IUP.
5. Idaho's next Intended Use Plan (SFY 2002) for the CWSRF should contain a plan for committing its large accrued cash reserve to new loans.

Introduction

This Program Evaluation Report (PER) summarizes the results of an annual performance review of the Idaho Clean Water State Revolving Fund (CWSRF) conducted by the U.S. Environmental Protection Agency (EPA), Region 10 for State Fiscal Year 1999 (SFY99). The review is based on several critical elements:

1. The SFY99 Annual Report submitted by the Idaho Division of Environmental Quality (DEQ) for the fiscal year ending 30 June 1999;
2. The Clean Water State Revolving Fund Intended Use Plan for SFY98 and SFY99 for the Idaho Clean Water State Revolving Fund;
3. The draft financial audit of the Idaho Clean Water State Revolving Fund for the SFY99;
4. The SFY98 Performance Evaluation Report (PER) sent to Idaho DEQ on April 20, 1999;
5. An EPA review of Idaho CWSRF related documents in the EPA grant files maintained by the EPA Regional Office and of data maintained in EPA's National Information Management System (NIMS) with the assistance of the states;
6. A review by DEQ staff of the draft of this report;
7. An on-site review (the Program Evaluation Visit [PEV]) held from 4 April through 6 April 2000 during which the EPA staff reviewed and discussed program issues with the staff of DEQ and reviewed DEQ files for a few of the loans in the portfolio of Idaho's CWSRF.

Scope of the Review

The annual review examined the performance of the Idaho Clean Water State Revolving Fund during State Fiscal Year 1999. We reviewed the legal, managerial, technical, financial, and operational capabilities and performances of the program. We paid specific attention to DEQ's compliance with the terms of the Operating Agreement, grant conditions, certifications and assurances, adherence to specific proposals and progress towards stated goals and objectives. We also focused on the pace of the program, Intended Use Plan development, future administration of the program, the efforts of the program to make loans for nonpoint source water quality projects, and file reviews of the Aberdeen, Caldwell, and Helmer Hardship Grant project files.

Idaho DEQ Program Summary

The State of Idaho received its initial capitalization grant on August 24, 1989, and its tenth and most recent grant on August 11, 1998 for \$6,577,300. Through June 30, 1999, the CWSRF has received a total of \$69,918,415. The program funding is summarized as follows:¹

TABLE 1: PROGRAM SUMMARY					
Grant ID No.	Amount	Cash Draws	Availability	Match	Total Capital
CS-160001-89	\$4,577,200	\$4,577,200	\$0	\$915,440	\$5,492,640
CS-160001-90	\$4,738,000	\$4,738,000	\$0	\$947,600	\$5,685,600
CS-160001-91	\$10,343,215	\$10,343,215	\$0	\$2,068,643	\$12,411,858
CS-160001-92	\$9,534,900	\$9,534,900	\$0	\$1,906,980	\$11,441,880
CS-160001-93	\$9,431,000	\$9,431,000	\$0	\$1,886,200	\$11,317,200
CS-160001-94	\$5,813,800	\$5,813,800	\$0	\$1,162,760	\$6,976,560
CS-160001-95	\$6,007,800	\$6,007,800	\$0	\$1,201,560	\$7,209,360
CS-160001-96*	\$6,318,400	\$5,995,747	\$322,653	\$1,263,680	\$7,582,080
CS-160001-97	\$6,576,800	\$136,624	\$6,440,176	\$1,315,360	\$7,892,160
CS-160001-98	\$6,577,300	\$0	\$6,577,300	\$1,315,460	\$7,892,760
TOTALS	\$69,918,415	\$56,578,286	\$13,340,129	\$13,983,683	\$83,902,098

* Cash draws & available balance from this grant are manually adjusted to reconcile with state records.

The Idaho CWSRF operates as a direct loan program. As of the end of SFY99, it had made binding commitments totaling \$87,762,196 for 45 projects. All of this amount has been committed to Clean Water Act §212 projects such as wastewater treatment projects and collection systems. Of these 45 projects, 30 with a value of slightly over \$49,200,000 have completed construction and initiated operations as of the end of SFY99. Eleven additional projects were under construction as of the end of SFY99. The remaining 4 projects had not started construction as of the end of SFY99.

Loans are currently provided with maturities of up to twenty years at a 4% interest rate. Eighteen such loans exist with another 26 loans having an interest rate of 4.5%. The loan rate for the first two years of the program was set at 4% as an enticement to communities to use the CWSRF. For the next seven years the rate was 4.5% and is reevaluated on an annual basis. The rate was reduced to 4% again in October.

The costs of administering the CWSRF are paid for with money drawn from the Fund. The Clean Water Act allows states to use money from the Fund up to an amount equal to 4% of the cumulative EPA capitalization grant awards. Through SFY99, Idaho had used \$2,279,795 or 3.2% of the total EPA capitalization grants to date. In SFY99,

¹

Source: SFY99 Annual Report, SFY99 Individual Entity Audit Report-draft, IFMS report.

Idaho used \$200,567 or 3.0% of the capitalization grant award it received in SFY98. Idaho does not assess any loan origination or servicing fees on CWSRF loans.

The grantee has been the Idaho Division of Environmental Quality (DEQ). Under Idaho Code, the State's 20 percent match is perpetually appropriated from the Water Pollution Control Fund. The State deposits cash match into the CWSRF when actual cash draws from the EPA are made.

SFY98 PER Update

Based upon our review, in the SFY98 PER we recommended the following improvements to the CWSRF:

8. The Idaho CWSRF may now be understaffed, given that the same central office staff (the loan program manager and the program accountant) is servicing both the CWSRF and the new Drinking Water State Revolving Fund. EPA requests that DEQ complete a staffing analysis to determine what staff is necessary to effectively implement the two revolving fund programs. We have attached, as Attachment IV, an outline of the functions that we believe are essential components of an effectively managed revolving fund program to serve as a guide for the requested analysis.

DEQ response - DEQ realizes that the addition of the Drinking Water SRF has caused a significant increase in the overall workload for DEQ staff. During this year DEQ will conduct a workload analysis for both the Central Office and Regional Office positions for both SRFs. This analysis will address not only what positions are needed but also how to fund those positions. This will involve a long-term funding solution that will undoubtedly involve the establishment of an administrative "reserve" account that is funded by a loan fee.

The EPA CWSRF staff did not receive a workload analysis for either the Central Office or the Regional Office positions during SFY 99. If ID DEQ did conduct such an analysis, EPA would appreciate receiving a copy. The ID CWSRF still does not assess any fees on loans and has not established an administrative reserve. This is of concern to EPA as the CWSRF had through the end of SFY 99 used approximately 86% of its available capitalization grant administrative allowance.

During the PEV EPA CWSRF staff reiterated concern that the Idaho CWSRF may be understaffed and again requested that DEQ complete a staffing analysis to determine what level of staffing is necessary to effectively implement two revolving fund programs. DEQ has agreed to provide this analysis to EPA by October 13, 2000.

Also during the PEV, ID DEQ stated that various long-term funding options had been discussed and determined there is no need to assess loan fees. Funding for the State Water Pollution Control Account is changing from a flat \$4.8 million from Sales Tax, 4.3% of the Cigarette Tax, 87.6% of Tobacco Tax (cigars, chewing tobacco) **and** 80% of Estate Tax to only a flat \$4.8 million from sales tax. All other obligations have been removed. This \$4.8 million will now only provide the state match for both SRF's.

9. The state appears to be using all of the funds available for administering the CWSRF (4% of the federal capitalization grants, cumulatively). Current plans still anticipate that federal capitalization grants will end within the next several years. The state should evaluate the imposition of loan origination fees and/or annual loan servicing fees in the near future in order to build a “reserve” account that could be used to finance administration of the CWSRF after federal capitalization grants have ended.

DEQ response - As mentioned in comment #1, DEQ will consider methods to fund CWSRF administrative cost in perpetuity. As of March 31, 1999, Idaho has expended the administration portion of the CWSRF Capitalization Grants through Federal FY 96. Assuming continued CWSRF Capitalization Grants as proposed through 2003, Idaho has approximately seven years of CWSRF administration funding remaining.

Issue satisfactorily addressed in comment one.

10. Idaho has not yet considered expanding its CWSRF so that it could make loans to nonpoint source water quality projects. Nonpoint source water pollution is a substantial contributor to the state’s water quality problems and addressing nonpoint source water pollution will be a major component of the watershed restoration strategies being developed to deal with streams that are currently “listed” under §303(d) of the Clean Water Act. We strongly recommend that the state begin now, as a part of its current effort to develop a new nonpoint source water pollution control strategy, to build the foundation that would allow the CWSRF to make loans for projects that would implement this new strategy and the associated watershed restoration strategies.

- A. In its current project to update the state’s Clean Water Act §319 nonpoint source water quality protection strategy, DEQ should clearly articulate the actions it plans to take over the next several years to address nonpoint source water quality issues and the role that DEQ would ultimately like Idaho’s CWSRF to play in financing the implementation of the strategy and in the implementation of the watershed restoration strategies called for by the Clean Water Action Plan.
- B. Work with the Idaho State Legislature to modify the state enabling legislation so that a broader range of potential borrowers is eligible under the law.
- C. Develop the necessary legal and regulatory mechanisms to allow its CWSRF to make loans to private sector parties to finance projects that would implement the state’s nonpoint source water quality strategy.

DEQ response - DEQ realizes that funding nonpoint source projects will likely be a part of the CWSRF in the future. DEQ hopes to submit the necessary legislation for the next session beginning January, 2000. Nonpoint source funding will be considered when DEQ prepares the long-term plan for funding and staffing.

During SFY99 DEQ did address this issue. However, during SFY2000 the state's Clean Water Act §319 nonpoint source water quality protection strategy was completed and approved by EPA. It provides the framework necessary to allow the Idaho CWSRF to be used to finance its implementation once needed changes in state law are enacted by the legislature.

During SFY2000 DEQ worked with the legislature to modify the CWSRF enacting legislation. This process is not yet complete but shows DEQ's commitment towards developing a new nonpoint source water pollution control strategy allowing for a much broader range of potential water pollution abatement projects. We commend DEQ on its effort! Extensive guidance and a new solicitation process must still be developed in order to implement these programmatic changes. EPA hopes DEQ continues moving forward towards implementing these changes and that Idaho's first nonpoint source abatement project will be listed on the FY2002 IUP.

Review of Financial Management Practices

The Clean Water Act, the CWSRF program regulations at 40 C.F.R. 35.3100 et. seq. and the Operating Agreement include a series of requirements that speak to how a Clean Water State Revolving Fund program manages the funds that are under its care. This portion of the report discusses how the CWSRF has addressed those requirements.

Acceptance of Grant Payments, 40 CFR 35.3135(a)

For SFY99, the State agreed to accept payments in the increments shown in the table below. This table also shows the quarterly cash draws from the EPA Automated Clearinghouse Payment System (EPA-ACH).²

TABLE 2: PAYMENTS				
Federal Period	Grant Payments	Cumulative Grant Payments	Quarterly Cash Draws*	Cumulative Cash Draws
4Q FY 98	\$263,072	\$57,027,387	\$826,292	\$49,582,882
1Q FY 99	\$6,313,728	\$63,341,115	\$1,407,639	\$50,990,521
2Q FY 99	\$0	\$63,341,115	\$1,837,630	\$52,828,151
3Q FY 99	\$0	\$63,341,115	\$3,750,135	\$56,578,286
Period Totals	\$6,576,800		\$7,821,696	

* NIMS data for 2QFY99 is manually adjusted here because a correction occurred after the end of the fiscal period.

The entire payment schedule (including past payments) is shown in Attachment I.

State Match, 40 CFR 35.3135(b)

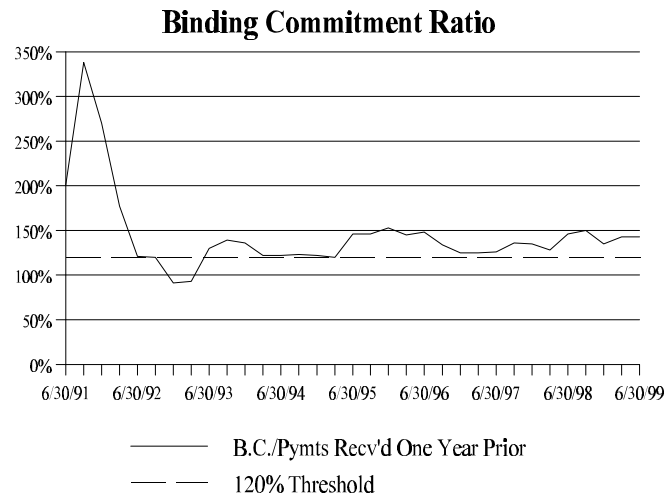
In awarding capitalization grants the EPA has relied on State letters of credit that are drawn from the State Water Pollution Control Account (WPCA). Transfers are made from State letters of credit as the 20% match is required when cash draws are made from the capitalization grants. The WPCA derives its income from four different taxes. They are a flat \$4.8 million from Sales Tax, 4.3% of the Cigarette Tax, 87.6% of Tobacco Tax (cigars, chewing tobacco) and 80% of Estate Tax. The amounts deposited into the WPCA are perpetually appropriated so DEQ does not need to go to the legislature every year to commit funds for the match. The State has provided matching funds of \$11,315,658. As of June 30, 1999, State matching contributions were:³

TABLE 3: BANKED MATCH, JUNE 30, 1999					
	Total Appropriated State Match	Total Match Provided at June 30, 1998	State Match Provided in SFY99	Total Match Provided at June 30, 1999	Available State Match Balance at June 30, 1999
Idaho State Match	\$13,983,683	\$9,751,318	\$1,564,340	\$11,315,658	\$2,668,025

Binding Commitments, 40 CFR 35.3135(c)

The State executed four new project binding commitments and one loan increase totaling \$7,511,318 during the fiscal year. Cumulative results are shown in Attachment I.

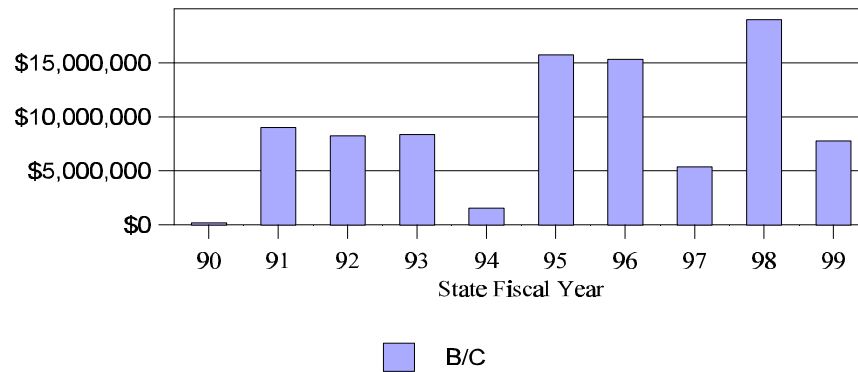
The State is required to issue binding commitments equaling at least 120% of the payments received within one year of the payments. As of June 30, 1998, the State had received a total of \$63,341,115 in payments. The total binding commitments made as of June 30, 1999 (one year later) was \$90,548,205. The ratio of binding commitments to cumulative payments received one year earlier was 143% which exceeded the statutory threshold of 120%.



As shown in figure 1 below, new loan activity in SFY99 was significantly lower than it had been in the past several years. If possible, EPA will assist DEQ in addressing this issue.

Annual B/C Dollar Amounts

Figure 1



Timely and Expeditious Use of Funds, 40 CFR 35.3135(d)

The Clean Water Act and the CWSRF program regulations require that states use the funds available to their CWSRFs in a timely and expeditious manner. This requirement is aimed at (a) getting projects under construction and completed quickly and (b) insuring that revenues accruing to the funds (repayments and interest earnings) are committed to new projects within a reasonable period of time. During SFY99, Idaho made 50 cash draws for project and administrative assistance totaling \$7.8 million from the EPA-ACH.

One manner in which to track EPA-ACH expenditures is as a percentage of capitalization grants awarded. As of June 30, 1999, the CWSRF still had \$13,211,545 in awarded but undrawn Federal funds. This equates to this program having expended 81% of capitalization grants awarded. This is a continuation of the positive trend in drawing down the “idle” cash in the ACH.

Another dimension to the timely expenditure of funds requirement is the overall pace of the program, i.e., how fast does a revolving fund commit and expend not only first round funds but second and subsequent rounds as well. As of June 30, 1999, the State had \$33,390,964 in loan principal repayments, loan interest payments, and interest earnings invested in the Idaho Treasury investment pool. This amount continues to accrue and provide financing beyond what has been provided through capitalization grants. In order for the CWSRF to truly revolve, these funds need to be both committed and disbursed.⁴

TABLE 4: CUMULATIVE LOAN COLLECTIONS AND INTEREST EARNINGS ON INVESTMENTS AS OF JUNE 30, 1999

	Principal	Interest (Loans)	Interest (Fund Balance)	Total
Through SFY98	\$4,198,592	\$3,930,683	\$933,229	\$9,062,504
SFY99	\$22,684,962	\$861,530	\$781,968	\$24,328,460
TOTAL	\$26,883,554	\$4,792,213	\$1,715,197	\$33,390,964

In addition, the tables below portray the Idaho CWSRF's performance with regard to two program pace measures.⁵

TABLE 5: PACE OF LOAN ISSUANCE			
	Through SFY97	Through SFY98	Through SFY99
Total Project Assistance Provided	\$61,509,134	\$80,248,178	\$87,759,496
Total Project Funds Available	\$72,896,423	\$82,966,134	\$114,893,868
Pace of Loan Issuance Ratio	84%	97%	76%

TABLE 6: PACE OF CONSTRUCTION			
	Through SFY97	Through SFY98	Through SFY99
Total Project Disbursements*	\$49,499,147	\$56,428,680	\$65,614,150
Total Project Assistance Provided	\$61,509,134	\$80,248,178	\$87,759,496
Pace of Construction Ratio	80%	70%	75%

TABLE 7: PACE OF TOTAL PROGRAM			
	Thru SFY97	Thru SFY98	Thru SFY99
Total Program Disbursements*	\$51,359,469	\$58,534,387	\$68,013,343
Total Program Funds Available	\$74,756,746	\$85,071,842	\$117,293,061
Pace of Program	69%	69%	58%

It is important to note here that the very large early loan repayment from Boise obviously skews the trend of two of these pace measures. Although the loan issuance ratio (Table 5) drops by 21%, that is much more attributable to the \$32 million increase in Project Funds Available than any relative paucity in Project Assistance Provided. Likewise, the decrease shown in the Total Program Pace measure (Table 7) from 69% to 58% is a byproduct of the large increase in Program Funds Available. In fact the year-to-year increase in Program Disbursements shows a positive trend toward using the available funds.

Finally, one more aspect of expeditiousness is the achievement of certain project milestones. During SFY99, four more loans finished the disbursement phase, bringing the total of completed loans to 30 while two new projects started construction.

⁵

Source: NIMS, *disbursements are adjusted by \$22,200.

Rules of Cash Draw, 40 CFR 35.3155(d) & 35.3160

During the Period, the State requested 50 cash draws for \$7,821,696. They are listed in Attachment II. The State continues to maintain compliance with the requirement for proportionality, as shown in the following table:⁶

TABLE 8: CASH DRAWS			
	Through SFY98	SFY99	Total
Total Disbursements*	\$58,534,387	\$9,478,956	\$68,013,343
Total Federal Cash Draws**	\$48,756,590	\$7,821,696	\$56,578,286
Federal Cash Draws as % of Disbursements	83.3%	82.5%	83.2%

Generally Accepted Accounting Principles (GAAP), 40 CFR 35.3135(h)

The Annual Report included CWSRF financial reports prepared by DEQ for the State fiscal year ending June 30, 1999. A subsequent Individual Entity Audit conducted by the Idaho State Legislative Services Office concluded that the financial statements were materially accurate and reliable, and that Idaho CWSRF fiscal operations comply with related laws and regulations. There was one finding in the audit report; that policies and procedures need to be formalized, and that loan contract files need further documentation. Based on the auditor's recommendations from that finding, IDEQ agreed to: (1) formalize the way it handles interest calculation for loan to projects also receiving a State Supplemental Grant; (2) develop standard criteria for project construction phase interest calculation; and (3) institute a standard method of determining interest rates when dealing with loan consolidations.

EPA appreciates the thoroughness and completeness of the Individual Entity Audit, as this annual exercise appears to comply fully with the Clean Water State Revolving Fund Audit Guide. There is some concern, however, that IDEQ staff are being pulled away from other important SRF matters to deal with audit issues. Compared to hours spent by the financial specialist in SFY98 on audit issues (about 9% of his total annual work hours), the amount of time increased in SFY99 to 16%, largely due to the addition of the DWSRF audit. This would seem to support our contention that the SRF program is understaffed. But there is also hope that, as the Idaho Legislative Services Office Audit staff become more familiar with how the both SRF programs work, there will be a reduction of IDEQ staff time required.

Outlay Management, 40 CFR 35.3155(b)

For FFY99 DEQ estimated drawing \$8,290,017 from the EPA-ACH. Actual draws for the period were \$10,374,854. Although cash draw projections were requested

⁶

Source: IFMS, NIMS, *Through SFY98 disbursements adjusted by \$22,000, ** SFY99 cash draws manually adjusted to reconcile with state records.

for the Federal Fiscal Year, State Fiscal Year projections and actual outlays are also shown below for comparison purposes. Attachment II presents further information regarding cash draws made by the State during the Period.⁷

TABLE 9: OUTLAY MANAGEMENT			
Federal Period	State Forecast	Actual Outlays	Percent of Forecast
4Q FY98	\$4,000,000	\$826,292	21%
1Q FY99	\$1,416,000	\$1,407,639	99%
2Q FY99	\$1,112,671	\$1,837,630	165%
3Q FY99	\$2,606,044	\$3,750,135	144%
4Q FY99	\$3,155,302	\$3,379,450	107%
TOTALS (FFY)	\$8,290,017	\$10,374,854	125%
TOTALS (SFY)	\$9,134,715	\$7,821,696	86%

Perpetuity, 40 CFR 35.3100(a)

SRF programs are to be designed and operated so that the SRF will continue to provide assistance for water pollution control activities in perpetuity. The financial statements presented with the CWSRF SFY99 Annual Report, supplemental Summary of Clean Water State Revolving Fund Loans and Idaho Legislative Services audit were analyzed in an effort to assess the CWSRF's financial integrity and its ability to operate in perpetuity. Based on that analysis, the CWSRF appears to be complying with the perpetuity requirements of the SRF program, i.e., the corpus of capitalization grants and State match funds deposited into the CWSRF continue to be maintained and should be available for future projects.

The primary concern with the performance of the Fund in past years has been the pace of the program. In SFY98, however, the State entered into \$18,739,044 in binding commitments, an amount greater than in any previous year. Although a similar effort was not seen in SFY99, hopefully this trend will continue in subsequent years and Idaho can begin to use some of its substantial cash currently invested by the State Treasury. Of concern, the WPCA is now being used to provide matching funds for the DWSRF as well as the CWSRF and no longer contains sufficient funds to provide grant money to communities to develop facility plans. Binding commitments are expected to decrease once the facility plans previously funded with grant money are all used unless another source of funding can be found.

One possible solution to ramping up the pace of the program is to re-evaluate the interest rates charged for loans. In Table 10 below, we can see that for the past three years, Idaho has consistently had an interest rate that is higher than other Region 10 SRF programs, and much higher than the national average. Although a loan is still a loan and must be repaid, a further reduction in the base rate offered, or offering lower rates for

⁷

Source: IFMS, CWSRF outlay projections

shorter terms loans might attract prospective borrowers who had been holding out for grant funding.

TABLE 10: COMPARATIVE INTEREST RATES			
	SFY97	SFY98	SFY99
Alaska	3.9%	3.9%	3.5%
Idaho	4.5%	4.5%	4.2%
Oregon	3.8%	3.6%	3.5%
Washington	2.8%	3.2%	4.1%
Region 10 Average	3.8%	3.8%	3.8%
National Average	2.9%	2.7%	2.6%
Bond Buyer Index	5.7%	5.2%	5.1%

The State does not currently collect any administration fees which could be used to help cover future costs of administering the program (after the capitalization period has stopped). While the State currently has sufficient money for the administration of the SRF, serious consideration must be given to future administrative funding sources.

Ratio Analysis

As shown in Table 11 below, the investment yield decreased more than one percentage point from last year's return. However, the return rate still tracks with the NIMS median quartile of similar (non-debt) CWSRF programs. Last year the return rate exceeded even the NIMS upper quartile rate of return. As stated previously, management of the CWSRF has little control over earnings rates from investments. It does, of course, control overall earnings to the extent that funds remain in investments (rather than being revolved out as new loans). The return rates for the past three years appear to be consistent with the rates being earned on the invested funds of other similar non-debt CWSRF programs around the country.

Table 11: Investment Yield						
Fiscal Year	Investment Earnings	Average Investment Assets	Rate of Return	NIMS UQ	NIMS Median	NIMS LQ
SFY97	\$281,185	\$5,284,250	5.3%	NR	NR	NR
SFY98	\$428,284	\$7,764,744	5.5%	5.4%	4.7%	3.9%
SFY99	\$880,190	\$21,140,441	4.2%	4.8%	4.3%	3.6%

Source: Annual reports, NIMS data.

The loan yield (shown in Table 12 below) has shown a slight downward trend. However the rate of return on the loan portfolio has still outpaced the annual increases in construction costs as measured by the Engineering News Record's Construction Cost

Index (CCI). In addition the return rate has kept pace with the upper quartile of comparable (non-debt) CWSRF programs as recorded in NIMS.

Table 12: Loan Yield							
SFY	Loan Interest Earnings	Avg. Loans Outstanding	Rate of Return	CCI*	NIMS UQ	NIMS Median	NIMS LQ
97	\$1,547,438	\$39,872,197	3.88%	3.9%	NR	NR	NR
98	\$1,821,229	\$49,962,129	3.65%	2.1%	3.1%	2.7%	1.6%
99	\$1,454,679	\$46,752,804	3.11%	2.1%	3.4%	2.6%	1.9%

Source: Annual reports, NIMS data, CCI data (*adjusted to SFY).

Another method of evaluating management of funds is to look at the rate the Idaho CWSRF generates internal equity. In Table 13 below, we can see that the growth rate for the past two fiscal years has compared quite favorably to NIMS data for similar programs. Any positive value in this ratio indicates that the SRF program is generating capital from ongoing operations, and expanding its capital base from which future loans can be made.

Table 13: Internal Capital Formation						
Fiscal Year	Net Income*	Prior Period Retained Earnings	Growth Rate	NIMS UQ	NIMS Median	NIMS LQ
SFY98	\$2,004,128	\$3,207,266	62%	56%	40%	33%
SFY99	\$2,034,501	\$5,211,394	39%	42%	35%	27%

Source: Annual reports, NIMS data.

*SFY99 net income does not include the loss from early extinguishment of loans receivable.

Underwriting

DEQ routinely reviews each loan application, considering: 1) the scope of the project and its related funding needs and sources, 2) the applicant's existing user charge system, including new revenue requirements due to proposed projects and debt service, and 3) the ability of the applicant's user population to afford higher user charges. There have been no loan defaults in the CWSRF to date.

Review of Project Management Practices

The Clean Water Act and the CWSRF program regulations also contain a series of requirements that address how Clean Water State Revolving Fund programs are to manage projects that receive loans and how those projects are to be planned and constructed. Our review of those aspects of the Idaho CWSRF program for SFY99 is discussed in this section of the Program Evaluation Report.

Field Inspections and File Review

During the on-site review, project files for the Aberdeen POTW upgrade (1890-01), Caldwell POTW improvements (1896-03), and the Helmer POTW Hardship Grant (1896-08) were reviewed. In addition to observations noted later in this report, the following is a brief summary of the file reviews for these projects.

City of Aberdeen POTW, 1890-01

On August 14, 1990 the City of Aberdeen received a small loan of \$323,000 at 4% interest for the rehabilitation of the aerobic digester and the aeration basin along with associated items. DEQ specified that the loan was to modify the aerated grit chamber, replace influent flow meter, aeration basin aerobic digester, decant pump station and plant piping, add new aeration system, blower building, chlorine contact chamber drain, clarifier gravity line, water hydrants, yard lighting and composite samplers.

Neither the facility plan nor the Plans and Specifications (P&S) were located in the files for EPA to review. A copy of the facility plan and the P&S should **always** be available when EPA reviews a file.

The opening date for receiving bids was March 5, 1991. Nine bids were received and a copy of each was contained in the file. The most responsible bidder, B&C Construction Inc, was awarded the contract based on its bid of \$387,000. In May 1993 an official change was made to reorder piping arrangement and extra reinforcement of weir walls. In November 1993 another change was made to construct two additional drying beds. Both changes were well documented and followed all appropriate procedures.

A pre-final inspection was completed on October 11, 1991 and construction ended on October 17, 1991. The engineer's one-year certification was completed on May 5, 1993 and the Operations and Maintenance Manual approved by DEQ on December 21, 1994.

City of Caldwell POTW, 1896-03

On April 7, 1998 the City of Caldwell signed a \$10 million CWSRF loan at 4.5% for improvements to the POTW including aeration basins, blower building, digester modifications, pumping, and piping. This is the largest CWSRF loan to date in Idaho. After the planning document was approved, the project's P&S were submitted to DEQ on February 3, 1998. DEQ had many comments on the P&S which were responded to and DEQ approved the P&S on May 7, 1998.

The P&S bid advertisement was published in the Idaho Press Tribune. DEQ did an excellent job informing the recipient of MBE/WBE responsibilities, certifying that the six affirmative steps were followed, and documenting all MBE/WBE related work. This project should serve as a model for the MBE/WBE process.

Throughout the construction period, numerous inspections were conducted and cataloged without incident. The O&M manual was submitted August 6, 1999. DEQ required a number of changes to be made before approval was provided on February 15, 2000.

City of Helmer POTW and Hardship Grant, 1896-08

The City of Helmer on September 25, 1998 signed a small CWSRF loan of \$68,318 at 4.5% that was blended with a disadvantaged community grant of \$387,135 to design and construct collection and distributor lines, a two-cell lagoon and an agroforest system. The project was needed to eliminate 22 failing septic systems that were close to five wells.

This project is unique in that it involves use of the Ecolotree Buffer®, an agroforest of hybrid poplars designed to absorb nutrients from the lagoon system. The nearly 7 acres of poplars are harvestable for pulp products within 5-7 years to provide funds for operations and maintenance of the system.

The facility plan, dated February 1998, was amended slightly in August of the same year to allow for a revision to the lagoon system.

An interim report reviewed during the file review stated that the one-year certification had not yet been completed because there was insufficient water flow present in the system to test system performance.

Environmental Reviews, 40 CFR 35.3140

During SFY99 public notices were developed and environmental documents were reviewed by the State for projects in the municipalities of Driggs, Victor, Helmer and Spirit Lake. Findings of No Significant Impact (FONSI) were issued for projects in Driggs, Victor and Helmer while Spirit Lake qualified for a Categorical Exclusion.

EPA staff were unable to fully assess the Aberdeen project because the file lacked key documents including the facility plan and the P&S. It was ascertained that the City of Aberdeen applied for a categorical exclusion on February 5, 1990 and was given DEQ approval on April 6, 1990. EPA does not know the extent of environmental review that was conducted.

During this year's annual review, EPA staff examined the environmental review conducted for the Caldwell project. Our review of the project files indicates that though a thorough environmental evaluation was completed, the procedural requirements specified under Idaho Code 60-109 were not met. Idaho Code 60-109 Publication of Notices -- Number of Publications Required states,

“Whenever a law of this state requires publication of any notice or proceeding, said requirement shall be satisfied by publishing the same once each calendar week on the same day of each week for the number of times equal to the number of weeks mentioned in the requirement in any regular issue of a newspaper published on one or more days of each week; or when a specified number of days is required, a ten (10) days’ notice shall be satisfied by two (2) such weekly publications, a twenty (20) days’ notice by three (3) such publications, and a thirty (30) days’ notice by five (5) such publications.”

Three notices of a public hearing concerning the FONSI issued on the Caldwell project were published from June 19 - July 3 in the *Idaho Press Tribune*. Required under IDAPA 58.01.12.041.03(b) all projects receiving a draft FONSI are subject to a

thirty (30) day public comment period. Idaho Code 60-109 clearly states that this requirement is met through five, not three, publications of the notice of a public hearing.

The Helmer project was issued a Finding of No Significant Impact (FONSI). Public meetings took place on December 8, 1997 and June 29, 1998. The project file contained detailed documentation showing how the borrower attempted to comply with the Endangered Species Act, the National Historic Preservation Act, the Farmland Protection Policy Act, and a pair of Executive Orders, on protecting wetlands, and floodplain management, among others.

MBE/WBE Commitment and Reporting, 40 CFR 35.3145(d)

Idaho submitted EPA Forms 5700-52A, *MBE/WBE Utilization under Federal Grants, Cooperative Agreements and Other Federal Assistance*, for those projects undergoing procurement activity as follows⁸:

TABLE 14: EPA FORMS 5700-52 SUBMITTED						
Federal Period	Dollar Amount of MBE Activity	% of MBE Activity	Dollar Amount of WBE Activity	% of WBE Activity	Dollar amount of Procurement	Date Submitted to EPA
4Q FY98	\$0.00	0.00%	\$41,887.39	0.40%	\$0,480,515.39	Oct. 22, 1998
1Q FY99	\$560.04	0.01%	\$14,688.19	0.30%	\$4,945,604.23	Jan. 29, 1999
2Q FY99	\$0.00	0.00%	\$2,190.00	100.00%	\$ 2,190.00	April 30, 1999
3Q FY99	\$1,761,839.00	70.58%	\$8,840.00	0.35%	\$2,496,269.00	July 30, 1999
TOTAL	\$1,762,399.04	9.83%	\$67,605.58	0.38%	\$7,924,578.62	

The goals for MBE/WBE utilization during the first two quarters of the Period were 1% and 3% respectively. After renegotiating the MBE/WBE utilization goals, the goals for the last two quarters of the Period were both 1%. MBE/WBE percentage goals are negotiated annually and identified in each capitalization grant. They are based on “equivalency funds,” which (for purposes of this analysis in the post-equivalency period) is an amount equal to the capitalization grants.

In June of 1997, Guidance from EPA’s Small, Minority and Women’s Business Enterprises was revised. The guidance which is to be used for EPA’s FY1998 fair share negotiations with States and other recipients of EPA financial assistance, reflect a number of changes to EPA’s existing MBE/WBE utilization Guidance. Since 1996, the US Department of Justice has worked with various federal agencies on their affirmative action programs in light of the Supreme Court’s decision in Adarand Constructors, Inc. vs Peña, 115 S CT 2097 (1995). A change to the revised Guidance that requires immediate action is that the State must complete an assessment of the availability of qualified MBE/WBE firms in its relevant geographical market. MBE/WBE objectives were based on data provided by this assessment. FY98 capitalization grant awards included MBE/WBE goals based upon that State’s historical performance in procuring

MBE/WBE firms. The FY99 capitalization grant award included MBE/WBE goals based upon the availability assessment the State conducted.

Attachment III has calculations concerning the CWSRF's historical MBE/WBE progress and goals, as of the end of the Period, for each capitalization grant in accordance with program guidance. A synopsis appears below:⁹

TABLE 15: MBE/WBE ACHIEVEMENTS						
Year	Cap. Grant Amount	MBE Awards	MBE %	WBE Awards	WBE %	Overall %
FY89	\$4,577,200	\$418,125	7.16%	\$333,299	5.71%	12.86%
FY90	\$4,738,000	\$496,036	8.11%	\$808,747	13.23%	21.35%
FY91	\$1,034,321	\$883,004	5.36%	\$3,154,417	19.16%	24.53%
FY92	\$9,534,900	\$0	0.00%	\$514,711	5.92%	5.92%
FY93	\$9,431,000	\$0	0.00%	\$120,223	1.73%	1.73%
FY94	\$5,813,800	\$289,051	5.10%	\$309,200	5.46%	10.56%
FY95	\$6,007,800	\$30,861	0.55%	\$133,420	2.39%	2.94%
FY96	\$6,318,400	\$0	0.00%	\$22,000	0.39%	0.39%
FY97	\$6,576,800	\$0	0.00%	\$12,288	0.13%	0.13%
FY98	\$6,577,300	\$1,761,839	27.32%	\$0	0.00%	27.32%
Totals	\$60,609,521	\$3,878,916	6.40%	\$5,408,305	8.92%	15.32%
Goals (weighted)		\$4,485,105	7.40%	\$1,636,457	2.70%	10.10%
Relationship to Goals		(\$606,188)	-1.00%	\$3,771,848	6.22%	5.22%

The State has fallen short of its MBE goal (by 1% or \$606,188) and exceeded its WBE goal (by 6.22% or \$3,771,848) based on capitalization grants FY89 through FY98 rather than procurement activity limited to the State Fiscal Year. At the end of the fiscal year, procurement activities still remained for projects listed under the FY96-FY98 awards. For all State programs receiving EPA funds from FY89 through FY95, MBE/WBE fair share goals were negotiated as one non-program specific overall State goal. For example, the CWSRF did not meet the MBE goal of 9% for any year while the State as a whole met its overall 9% goal every single year. Since FY95, MBE/WBE goals have been negotiated directly with the ID CWSRF program. With the exception of the MBE goal for the FY98 grant and the WBE goals for the FY90 and FY91 grants, the program has been unable to meet its goals.

The Aberdeen loan agreement included a page listing the six affirmative steps of MBE/WBE utilization. Chapter 8, Attachment B of the Wastewater Facilities Construction Manual provided a summary statement for contractors concerning MBE/WBE practices. The Aberdeen project P&S were sent to the Disadvantaged

Business Assistance Center in Boise, ID. It was also sent to various contractor planning agencies throughout the inter-mountain area.

The Caldwell loan agreement and project specifications included a page listing the six affirmative steps of MBE/WBE utilization. Attachments A and B of the contractor's bid submitted on May 14, 1998 certified how each affirmative step had been attempted. The Caldwell project should serve as a model to other communities/projects as to how MBE/WBE affirmative steps can be taken and documented.

As with the previous two projects, the Helmer loan agreement included a page listing the six affirmative steps of MBE/WBE utilization. Attachment B of the prime contractor's bid documentation pledged MBE/WBE compliance.

Other Federal Authorities, 40 CFR 35.3145(a)

Idaho's practice continues to require that all CWSRF projects meet each of the 16 specific statutory requirements provided in Section 602(b)(6) of the Clean Water Act. Each CWSRF loan agreement includes language agreeing to comply with the 16 Title II requirements of the CWSRF program as well as federal cross-cutting requirements. Compliance with the appropriate Title II and cross-cutting requirements is a check list item monitored by regional project engineers. All projects assisted with funds made directly available by the capitalization grants must comply with cross-cutters. A discussion of environmental cross-cutters and MBE/WBE are found elsewhere in this report.

For the remaining cross-cutters, a review of the Caldwell project specifications found applicable Equal Employment Opportunity language within the documents. Though the P&S were not available for the Aberdeen project, all applicable Equal Employment Opportunity language was present in the loan agreement and detailed during the bid review process. The Aberdeen file also contained a memo written by Henry Moran, DEQ Senior Water Quality Engineer to Rubert Braun, Manager Engineer & Facilities Construction detailing the project's compliance with the Title II Requirements. The Helmer file contained most of the required cross-cutter documentation. However, a certification that contractors are not on a department and suspension list was not found in the file. Nor was there adequate documentation found regarding the purchase of land for the project site.

Recipient Accounting, 40 CFR 35.3135(i)

Loan recipients are required to submit annual financial audits of their programs to the Idaho State Legislative Services Office. Although this is not an express condition in the current loan agreement, the submitted audit reports are thus available for review by DEQ staff. In fact, this recommendation (for DEQ staff to review the submitted audits) was made by the auditor who has conducted the Individual Entity Audit of the CWSRF.

Eligible Activities, 40 CFR 35.3115, 3120 and 3125

To date, the CWSRF has provided low-interest loans to public entities for the construction of publicly-owned treatment works. Although the Clean Water Act allows

loans to be made for projects that implement the state's nonpoint source water pollution control strategy, developed pursuant to §319 of the Clean Water Act, Idaho has not yet expanded its program to include such loans.

In 1996, the Environmental Protection Agency, after extensive consultation with the states, issued the Clean Water Revolving Fund Funding Framework. The Funding Framework provides guidance on the processes that states should use to expand the range of projects that they finance with loans from their Clean Water State Revolving Funds. In February 1998, the Environmental Protection Agency and the U.S. Department of Agriculture issued the Clean Water Action Plan, aimed at continuing the nation's progress at restoring the quality of its waters. One of the essential elements of the plan is that EPA wants to see the Clean Water Revolving Funds used to finance the resolution of nonpoint source water quality problems around the country. One of the "Key Actions" identified in the Plan states that:

"EPA will work with states to increase the number and dollar amount of loans made through clean water revolving fund loan programs for priority projects to prevent polluted runoff, with the goal of increasing the percentage of funds loaned for this purpose to at least 10 percent (or \$200 million) by the year 2001. EPA will also work with the states toward the goal of increasing to 25 the number of states using integrated priority-setting systems by the year 2000."

Nonpoint source water pollution is a substantial contributor to the state's water quality problems. Addressing nonpoint source water pollution will be a major component of the watershed restoration strategies being developed to deal with streams that are currently "listed" under §303(d) of the Clean Water Act. Idaho's Clean Water State Revolving Fund does not yet make loans for nonpoint source water quality projects but a commitment to do so in the future has been made. We strongly applaud the state's effort to develop a new nonpoint source water pollution control strategy and effort to work with the State Legislature to modify the state's enabling legislation, thus allowing a broader range of potential water pollution abatement projects. Extensive guidance and a new solicitation process must still be developed in order to implement this programmatic change. EPA would like to continue to offer its help in any way and hopes to see Idaho's first nonpoint source abatement project on the FY2002 IUP.

Intended Use Plan Development, 40 CFR 35.3150

The State continued to use the FY98 Project Priority List (PPL) during FY99. The FY99 grant was neither applied for, nor awarded, until the State's Fiscal Year 2000 had already begun. Therefore, the FY99 grant contained the FY00 PPL. The FY98 Project Priority List (PPL) listed 98 communities with DEQ dollar estimates for a total amount of \$210,868,690. Seven projects, total dollar amount \$18,739,044, signed loan agreements during FY98 decreasing the number of eligible projects on the PPL to 90, total dollar amount \$192,129,646. Six projects, totaling \$12,200,479, expected to obtain binding commitments between July 1, 1998 and June 30, 1999. Information in the PPL listed discharge permit numbers, type of project, and expected amounts of assistance. The IUP noted that an amount equal to 4% of the capitalization grant was to be used for administrative assistance. All 90 potential projects listed in the FY99 IUP were Section 212 projects.

Of the above mentioned six projects listed in the FY98 IUP, four achieved binding commitments during the Period. There were no other binding commitments made during the Period. Project priority ranking for actual binding commitments are listed in Table 16 below:¹⁰

TABLE 16: CWSRF PROJECT PRIORITY RANKING - SFY98		
B/C Date	Community	FY98 PPL Ranking (98 Projects)
August 18, 1998	Driggs	#20
September 3, 1998	Victor	#21
September 25, 1998	Helmer	#40
January 20, 1999	Pocatello	#17

To summarize this table, three of the four binding commitments were located in the upper one-fourth of the respective PPL. This is a good accomplishment of providing financial assistance to high priority POTW projects, though EPA would also like to see a greater number of projects obtain funding in the next fiscal year.

Achievement of Goals and Objectives

The State had three long-term and four short-term goals, it claimed accomplishment for all but one. The goals and objectives with EPA comments are listed below:

- A. Long-Term Goal – Protect public health and the waters of the State by offering financial assistance for the construction of wastewater treatment facilities. The CWSRF currently provides funding to local agencies with an interest rate of 4%. The number of loans that the CWSRF has issued over the past nine years is a good indication that this objective is being met. During the reporting period, four communities signed binding commitments to either upgrade existing wastewater treatment facilities or build new ones. Four previously CWSRF-funded projects initiated operations, thereby improving surface and groundwater effected by discharges from these facilities.
- B. Long-Term Goal – Assist local communities as they strive to achieve and maintain compliance with Federal and State water quality standards. Projects identified to receive financial assistance are ranked in accordance with the procedures in DEQ's regulations. Of a possible 100 points in the rating system, 30 points are given if a project is needed to meet enforceable requirements of the Clean Water Act. Ten points are awarded if there is a threat to special resource waters and five points are awarded if there is a potential water quality impact on the beneficial use of surface or groundwater as identified in State water quality standards. This is a good start but EPA would like to encourage Idaho to make a greater number of the 100 total points related to water quality.

¹⁰

Source: SFY98 IUP, SFY98 Annual Report

- C. Long-Term Goal – Administer Idaho’s SRF to ensure its financial integrity viability, and revolving nature in perpetuity. DEQ’s staff analyze each applicants’ ability to repay a SRF loan before any loan agreement is executed, providing some assurance that the repayment stream won’t be interrupted. In most cases loans are secured by Revenue Bonds which will be held as collateral for the loan. The 4% or 4.5% interest charged on loans is sufficient to ensure the fund’s perpetuity. Some concern remains that no plans or provisions have been made to cover the future administrative costs of running the program after the capitalization period has ended.
- D. Short-Term Goal – Perform all necessary tasks to assure that all loan assistance requested for Federal Fiscal Year 1998 is provided to projects on the list in a timely manner. DEQ staff have worked to obtain loan applications from projects that are willing and able to proceed. It is DEQ policy to schedule many pre-application meetings with potential borrowers. DEQ may not have devoted enough time to this policy during the Period as they are significantly short-staffed. This is one possible explanation for the significant decrease in signed loan agreements this year compared with last year.
- E. Short-Term Goal – Make changes and additions to Idaho’s administrative and operating procedures necessary for the SRF Program to operate smoothly in its initial stages and on a long-term basis. No new changes or additions were made to either the administrative or operating procedures during the fiscal year. The 1998 audit found a minor problem with rule 16.01.12.050.05(g); stating, “The borrower may elect for either a schedule of quarterly or annual repayments at the time the loan is finalized.” The majority of Idaho CWSRF loans have been established as semi-annual repayments. DEQ has proposed to amend its rules within the next fiscal year or two. At that time, rule 16.01.12.050.05(g) shall be amended to include semi-annual repayments. EPA has not yet received the 1999 audit, other procedural problems may possibly be identified.
- F. Short-Term Goal – Prepare and make necessary modifications for the Federal Fiscal Year 1999 capitalization grant application. The application for the FFY99 capitalization grant funding was received by EPA on July 15, 1999. The capitalization grant was awarded to Idaho on September 23, 1999.
- G. Short-Term Goal – Begin preparation of an Intended Use Plan for State FY 2000. The hearing for the FY98 Priority List was held on April 23, 1999. It was adopted by the Board of Health and Welfare on June 24, 1999, and effective July 1, 1999. Projects from that list were selected for the IUP submitted with the application for FFY99 funds.

Changes, 40 CFR 35.3150(c)

During the state fiscal year, the CWSRF program staff had the added responsibility of running the Drinking Water State Revolving (DWSRF) as well. One additional staff person has been hired to help the central program staff in running these large programs, but additional financial or support staff may need to be provided. This

has caused concern at EPA because it creates the potential for the central office staff to be seriously overloaded, mentioned in the SFY98 PER. This may have impaired both revolving funds' ability to complete binding commitments and monitor the financial status of their respective loan portfolios, leading to the decline in signed binding commitments this year for the CWSRF. EPA would like to request that the FY98 staffing analysis request be completed and submitted to EPA by October 13, 2000.

Reporting

Annual Report, 40 CFR 35.3135(j) & 35.3165

The Annual Report was received by EPA on October 1, 1999. The content and information provided were very useful for EPA to understand the activities during the Period and to complete this review. Some suggestions for improvement are:

1. Include a chart or table containing the total amount of money available for binding commitments consisting of all signed loans subtracted from the total of all Capitalization Grants, State Match, Principle Interest and Repayments, and Fund Balance Interest;
2. Numbers or codes should be assigned to projects listed on the IUP and used, for consistency sake, on the annual report for ease of project tracking;
3. Provide the amount of State Match given during the fiscal year and also on a cumulative basis;
4. and provide additional supplemental information when any unusual occurrences, such as the negotiated early repayment from Boise and the closure of the Helmer Hardship Grant project, take place.

As a result of the Federal Government Performance and Result Act and a year-long joint effort between EPA and the Environmental Council of the States, there will be a set of "environmental indicators" to gauge how Clean Water SRFs are achieving desired environmental progress.

EPA will work with DEQ to assure that these new environmental indicators are reported based upon the best available information and provide accurate and useful results.

Data Management, 40 CFR 35.3130(b)

There are now two elements that consist of Clean Water SRF data management. The first involves project level data that is provided by the State to our office on a quarterly basis. Since DEQ no longer utilizes GICS, EPA is to be provided project level data on a spreadsheet, also done on a quarterly basis. The second element is the annual update of data for NIMS, which was completed by CWSRF staff during the fall of 1999.

Conclusions

The Idaho CWSRF continues to be a well managed and well-implemented program.

1. The Idaho CWSRF is financially sound and may sustain an annual loan volume much larger than it has in recent years.

2. As of June 30, 1999, the CWSRF has achieved a 143% binding commitment ratio.
3. Implementation of MBE/WBE guidance continues to be done in a correct manner. Actual accomplishments during SFY99 were 9.83% and .38% respectively. This represents the second highest percentage of minority businesses participating in the CWSRF since its inception in 1988! Though the WBE goals were not actually achieved, this is the highest percentage of women's business enterprises that have participated in several years. The MBE/WBE section of the Idaho CWSRF program is considered to be the most well-run in Region X and is often used as a model for other states in the region.
4. Nonpoint source water pollution is a substantial contributor to the state's water quality problems. Addressing nonpoint source water pollution will be a major component of the watershed restoration strategies being developed to deal with streams that are currently "listed" under §303(d) of the Clean Water Act. We strongly applaud the state's effort to develop a new nonpoint source water pollution control strategy and effort to work with the State Legislature to modify the state's enabling legislation to allow a broader range of potential water pollution abatement projects

Recommendations

Based upon our review, we recommend the following improvements to the CWSRF:

1. The Idaho CWSRF may now be understaffed, given that the same central office staff (the loan program manager and the program accountant) is servicing both the CWSRF and the new Drinking Water State Revolving Fund. EPA requests that DEQ complete a staffing analysis to determine what staff is necessary to effectively implement the two revolving fund programs. We have attached, as Attachment IV, an outline of the functions that we believe are essential components of an effectively managed revolving fund program to serve as a guide for the requested analysis. As per the DEQ and EPA verbal agreement, we expect to receive this analysis by October 13, 2000.
2. The state appears to be using most of the funds available for administering the CWSRF (4% of the federal capitalization grants, cumulatively). Current plans still anticipate that federal capitalization grants will end within the next several years. EPA recommends that DEQ determine how administrative costs of the fund will be financed once federal capitalization grants end.
3. Idaho CWSRF has maintained a 4% interest rate for eight of the past ten years, and a 4.5% rate during the other two years. While maintaining a constant interest rate has provided the borrowing community with stability, it does not appear to have had any ties to market fluctuations which control supply and demand. EPA recommends that DEQ change its method of setting interest rates from a controlled approach to a market based approach. One way is to tie the CWSRF interest rate to the bond buyer's index. EPA would be willing to

research how other states are tying CWSRF interest rates to market rates so that we may provide DEQ with other concrete examples.

4. The State has modified the CWSRF enacting legislation, making it possible to fund nonpoint source pollution abatement projects. Extensive guidance and a new solicitation process must still be developed in order to implement this programmatic change. EPA hopes to see Idaho's first nonpoint source abatement project on the FY2002 IUP.

Attachment I

Idaho CWSRF - Schedule of Binding Commitments, Payments and Cash Draws

	Time Period	Payments	Cum. Payments	BCs (Required)	Cum. BCs (Required)	BCs (Actual)	Cum. BCs (Actual)	Actual BC by SFY	Cum. (Actual) BC Percent	Cash Draws (Actual)	Cum. Cash Draws
FFY89	Oct-Dec 88	0	0	0	0	0	0		0%	0	0
	Jan-Mar 89	0	0	0	0	0	0		0%	0	0
	Apr-Jun 89	0	0	0	0	0	0		0%	0	0
SFY90	Jul-Sep 89	152,573	152,573	0	0	183,088	183,088	0	0%	0	0
FFY90	Oct-Dec 89	1,357,127	1,509,700	0	0	0	183,088		0%	0	0
	Jan-Mar 90	3,067,500	4,577,200	0	0	0	183,088		0%	0	0
	Apr-Jun 90	0	4,577,200	0	0	0	183,088		0%	42,000	42,000
SFY91	Jul-Sep 90	0	4,577,200	183,088	183,088	4,429,520	4,612,608	9,016,221	3023%	26,612	68,612
FFY91	Oct-Dec 90	1,479,550	6,056,750	1,628,552	1,811,640	833,700	5,446,308		361%	17,500	86,112
	Jan-Mar 91	3,195,221	9,251,971	3,681,000	5,492,640	819,000	6,265,308		137%	544,047	630,159
	Apr-Jun 91	5,165,248	14,417,219	0	5,492,640	2,934,001	9,199,309		201%	203,430	833,589
SFY92	Jul-Sep 91	473,100	14,890,319	0	5,492,640	6,251,139	15,450,448	8,257,207	338%	1,893,719	2,727,308
FFY92	Oct-Dec 91	4,768,096	19,658,415	1,775,460	7,268,100	908,000	16,358,448		270%	2,670,867	5,398,175
	Jan-Mar 92	0	19,658,415	3,834,265	11,102,365	0	16,358,448		177%	1,026,699	6,424,874
	Apr-Jun 92	0	19,658,415	6,198,298	17,300,663	1,098,068	17,456,516		121%	1,752,128	8,177,002
SFY93	Jul-Sep 92	0	19,658,415	567,720	17,868,383	381,396	17,837,912	8,362,152	120%	829,362	9,006,364
FFY93	Oct-Dec 92	381,396	20,039,811	5,721,715	23,590,098	0	17,837,912		91%	697,391	9,703,755
	Jan-Mar 93	2,371,191	22,411,002	0	23,590,098	518,516	18,356,428		93%	778,779	10,482,534
	Apr-Jun 93	0	22,411,002	0	23,590,098	7,462,240	25,818,668		131%	408,312	10,890,846
SFY94	Jul-Sep 93	0	22,411,002	0	23,590,098	1,445,290	27,263,958	1,536,260	139%	874,505	11,765,351
FFY94	Oct-Dec 93	377,240	22,788,242	457,675	24,047,773	0	27,263,958		136%	2,486,529	14,251,880
	Jan-Mar 94	792,888	23,581,130	2,845,429	26,893,202	50,000	27,313,958		122%	1,469,455	15,721,335
	Apr-Jun 94	5,989,425	29,570,555	0	26,893,202	40,970	27,354,928		122%	1,976,122	17,697,457
SFY95	Jul-Sep 94	0	29,570,555	0	26,893,202	115,000	27,469,928	15,755,239	123%	1,707,930	19,405,387
FFY95	Oct-Dec 94	3,000,000	32,570,555	452,688	27,345,890	327,427	27,797,355		122%	558,545	19,963,932
	Jan-Mar 95	3,000,000	35,570,555	951,466	28,297,356	500,000	28,297,355		120%	172,671	20,136,603
	Apr-Jun 95	3,937,041	39,507,596	7,187,310	35,484,666	14,812,812	43,110,167		146%	665,137	20,801,740
SFY96	Jul-Sep 95	4,166,667	43,674,263	0	35,484,666	0	43,110,167	15,317,926	146%	23,535	20,825,275
FFY96	Oct-Dec 95	5,954,985	49,629,248	3,600,000	39,084,666	6,800,000	49,910,167		153%	98,294	20,923,569
	Jan-Mar 96	816,667	50,445,915	3,600,000	42,684,666	1,517,926	51,428,093		145%	2,581,061	23,504,630
	Apr-Jun 96	0	50,445,915	4,724,449	47,409,115	7,000,000	58,428,093		148%	6,016,874	29,521,504
SFY97	Jul-Sep 96	1,086,069	51,531,984	5,000,000	52,409,116	0	58,428,093	5,343,586	134%	5,053,645	34,575,149
FFY97	Oct-Dec 96	500,000	52,031,984	7,145,982	59,555,098	3,843,586	62,271,679		125%	4,525,137	39,100,286
	Jan-Mar 97	3,541,666	55,573,650	980,000	60,535,098	1,000,000	63,271,679		125%	2,361,938	41,462,224
	Apr-Jun 97	1,190,665	56,764,315	0	60,535,098	500,000	63,771,679		126%	1,286,724	42,748,948
SFY98	Jul-Sep 97	263,072	57,027,387	1,303,283	61,838,381	6,337,116	70,108,795	19,002,116	136%	2,501,221	45,250,169
FFY98	Oct-Dec 97	6,313,728	63,341,115	600,000	62,438,381	0	70,108,795		135%	1,727,563	46,977,732
	Jan-Mar 98	0	63,341,115	4,249,999	66,688,380	965,000	71,073,795		128%	743,951	47,721,683
	Apr-Jun 98	0	63,341,115	1,428,798	68,117,178	11,700,000	82,773,795		146%	1,034,907	48,756,590
SFY99	Jul-Sep 98	5,979,518	69,320,633	315,686	68,432,864	2,774,410	85,548,205	7,774,410	150%	826,292	49,582,882
FFY99	Oct-Dec 98	597,782	69,918,415	7,576,474	76,009,338	0	85,548,205		135%	1,407,639	50,990,521
	Jan-Mar 99	0	0	0	76,009,338	5,000,000	90,548,205		143%	1,837,630	52,828,151
	Apr-Jun 99	0	0	0	76,009,338	0	90,548,205		143%	3,750,135	56,578,286

Attachment II

Idaho CWSRF - SFY 99 ACH Cash Draw Report

CY Month	FFY Month	FFY	Draw Amount	CY Month	FFY Month	FFY	Draw Amount
July	10	1998	\$157,072	Jan	04	1999	\$128,584
July	10	1998	\$57,899	Jan	04	1999	\$4,623
July	10	1998	\$927	Jan	04	1999	\$66,973
July	10	1998	\$3,263	Jan	04	1999	\$94,363
		Month Total	\$219,161			Month Total	\$294,543
Aug	11	1998	\$97,663	Feb	05	1999	\$38,879
Aug	11	1998	\$162,185	Feb	05	1999	\$111,668
		Month Total	\$259,848	Feb	05	1999	\$127,378
Sep	12	1998	\$5,088			Month Total	\$277,925
Sep	12	1998	\$3,073	Mar	06	1999	\$545,903
Sep	12	1998	\$76,297	Mar	06	1999	\$102,684
Sep	12	1998	\$262,825	Mar	06	1999	\$638
		Month Total	\$347,283	Mar	06	1999	\$39,850
		Qtr Total	\$826,292	Mar	06	1999	\$89,210
Oct	01	1999	\$226,807	Mar	06	1999	\$480,928
Oct	01	1999	\$14,728	Mar	06	1999	\$5,518
Oct	01	1999	\$72,025	Mar	06	1999	\$431
Oct	01	1999	\$195,157			Month Total	\$1,265,162
		Month Total	\$508,717			Qtr Total	\$1,837,630
Nov	02	1999	\$41,707	Apr	07	1999	\$152,544
Nov	02	1999	\$44,536	Apr	07	1999	\$136,624
		Month Total	\$86,243	Apr	07	1999	\$83,185
Dec	03	1999	\$177,813	Apr	07	1999	\$345,256
Dec	03	1999	\$90,777	Apr	07	1999	\$623,079
Dec	03	1999	\$50,253			Month Total	\$1,340,688
Dec	03	1999	\$21,228	May	08	1999	\$92,808
Dec	03	1999	\$267,963	May	08	1999	\$43,702
Dec	03	1999	\$204,645	May	08	1999	\$23,424
		Month Total	\$812,679	May	08	1999	\$111,636
		Qtr Total	\$1,407,639	May	08	1999	\$1,004,538
						Month Total	\$1,276,108
				June	09	1999	\$89,139
				June	09	1999	\$526,753
				June	09	1999	\$517,447
						Month Total	\$1,133,339
						Qtr Total	\$3,750,135
						SFY99 Total	\$7,821,696

ATTACHMENT III

MBE/WBE REPORTS FOR IDAHO CWSRF

FY89 Cap Grant	Loan #	Loan \$	Prime Contractor Contract \$	MBE Sub-Contractor Contract \$	WBE Sub-Contractor Contract \$
Aberdeen	1890-01	\$323,000.00	\$387,000.00	\$27,450.00	\$238,314.00
Pocatello	1890-02	\$3,917,000.00	\$3,145,270.00	\$320,327.47	\$65,646.28
Coeurd'Alene	1890-03	\$833,700.00	\$1,750,100.00	\$60,492.89	\$29,339.03
Boise	1890-04	\$687,458.00	\$559,774.00	\$9,855.02	\$0.00
FY90 Cap Grant					
Coeurd'Alene	1891-01	\$5,200,000.00	\$3,531,000.00	\$200,520.00	\$133,207.00
Heyburn	1891-02	\$1,363,681.00	\$738,170.00	\$125,000.00	\$613,170.00
Outlet Bay	1891-03	\$524,000.00	\$436,406.00	\$0.00	\$0.00
Coeurd'Alene	1891-04	\$819,000.00	\$1,407,079.00	\$170,516.24	\$62,369.56
FY91 Cap Grant					
Post Falls	1892-01	\$1,381,000.00	\$1,065,178.00	\$34,053.04	\$1,031,124.96
Bellevue	1892-02	\$1,150,000.00	\$2,148,123.00	\$696,693.19	\$26,877.00
Blackfoot	1892-03	\$908,000.00	\$322,066.00	\$32,000.00	\$80,470.44
Hayden	1892-04	\$704,358.00	\$2,002,100.00	\$114,845.00	\$47,493.00
Rexburg	1892-05	\$5,000,000.00	\$5,515,300.00	\$0.00	\$25,220.00
Murtaugh	1892-06	\$50,000.00	\$42,203.00	\$0.00	\$0.00
Coeurd'Alene	1892-07	\$500,000.00	\$139,351.00	\$4,853.00	\$0.00
Coeurd'Alene	1892-09	\$969,800.00	\$1,850,323.00	\$0.00	\$1,850,323.00
Ellisport Bay SD	1892-11	\$450,000.00	\$3,373,888.00	\$560.04	\$92,918.73
FY92 Cap Grant					
Gooding	1893-01	\$1,560,000.00	\$988,994.00	\$0.00	\$0.00
Rupert	1893-02	\$340,000.00	\$193,961.00	\$0.00	\$0.00
Council	1893-03	\$500,000.00	\$520,207.00	\$0.00	\$0.00
Basalt	1893-04	\$94,875.00	\$166,388.00	\$0.00	\$0.00
Eden	1893-05	\$115,000.00	\$97,540.00	\$0.00	\$0.00
Boise	1893-06	\$8,300,000.00	\$6,733,000.00	\$0.00	\$514,711.00
FY93 Cap Grant					
Weiser	1894-01	\$500,000.00	\$452,866.00	\$0.00	\$0.00
Kuna	1894-02	\$492,500.00	\$462,330.00	\$0.00	\$0.00
North Lake SD	1894-03	\$5,780,000.00	\$4,869,630.00	\$0.00	\$120,223.00
McCall	1894-04	\$3,140,850.00	\$1,171,530.00	\$0.00	\$0.00
FY94 Cap Grant					
Boise	1895-01	\$6,800,000.00	\$5,666,000.00	\$289,051.00	\$309,200.00
FY95 Cap Grant					
Boise (Landril)	1895-02	\$7,000,000.00	\$4,110,565.00	\$0.00	\$0.00
Hayden	1895-03	\$598,126.00	\$1,482,422.00	\$30,860.57	\$133,420.29
FY96 Cap Grant					
Gooding	1895-04	\$500,000.00	\$479,117.00	\$0.00	\$0.00
Dietrich	1895-05	\$100,000.00	\$0.00	\$0.00	\$0.00
Haily	1895-06	\$4,500,000.00	\$5,093,714.00	\$0.00	\$22,000.00
FY97 Cap Grant					
Parma	1896-01	\$565,000.00	\$0.00	\$0.00	\$0.00
Kalispel Bay SD	1896-02	\$1,474,044.00	\$402,014.00	\$0.00	\$0.00
Caldwell	1896-03	\$10,000,000.00	\$8,805,652.00	\$0.00	\$12,288.00
FY98 Cap Grant					
North Lake SD	1896-04	\$443,000.00	\$330,333.00	\$0.00	\$0.00
Fremonty County	1896-05	\$1,700,000.00	\$1,302,643.00	\$0.00	\$0.00
Victor	1896-06	\$1,250,000.00	\$1,718,371.00	\$0.00	\$0.00
Driggs	1896-07	\$1,150,000.00	\$1,336,364.00	\$0.00	\$0.00
Pocatello	1897-01	\$5,000,000.00	\$1,761,839.00	\$1,761,839.00	\$0.00
Totals		\$86,684,392.00	\$76,558,811.00	\$3,878,916.46	\$5,408,315.29

ATTACHMENT IV

Clean Water State Revolving Fund Major Functions

Program and Policy Development

- Legislative support (briefing and working with members of the state legislature, legislative committees and legislative staff members)
- Development of changes to state laws and regulations affecting the administration of the Clean Water Revolving Fund
- Advice to U.S. EPA and to the U.S. Congress on changes to the Clean Water Act and Clean Water Revolving Fund regulations and guidance
- Participation in national working groups addressing Clean Water Revolving Fund issues
- Development of state policy and guidance documents

Program Planning and Budgeting

- Developing the annual budget for the program
- Developing guidance and instructions to potential loan applicants on how to be considered in the development of the State's annual Intended Use Plan (IUP) for the Revolving Fund.
- Development of program procedures (such as program procedures manuals and state environmental review processes).
- Soliciting applications for consideration in the development of the annual IUP
- Assisting communities with the development of those applications
- Reviewing, evaluating and ranking applications to develop the priority list and the proposed IUP
- Arranging for and implementing the public review process for the proposed IUP
- Developing the final IUP
- Developing the capitalization grant application
- Developing, implementing and maintaining an Integrated State Priority System
- Financial and cash flow modeling to support long-term planning for the Revolving Fund

Loan Administration

- Developing application guidance and application forms
- Advising applicants and coaching them on the development of their loan applications
- General application review
- Loan applicant credit worthiness reviews and revenue stream evaluations
- Project eligibility determinations
- Environmental reviews
- Cross cutting federal laws compliance assurance

- MBE/WBE compliance assurance
- Loan offer/binding commitment offer development and execution
- Binding commitment tracking
- Project facility planning, design and construction oversight
- Outlay and disbursement management (payments to borrowers)
- Loan amortization and cash management (payments from borrowers)
- Financial accounting, financial record keeping and auditing (of loans and the Revolving Fund in its entirety)
- Portfolio management (monitoring fiscal health of borrowers)
- Cross-collateralization management

Program Administration and Management

- Information management (data entry and validation)
- General records management
- Providing data and reports to EPA region and reconciling DEQ records to EPA records
- Managing the pace of the program (ensuring that the fund actually revolves!)
- Loan terms evaluation
- Loan marketing--expanding the uses of the Fund
- Loan portfolio analysis (perpetuity related issues)
- Hardship grants administration and assistance to Hardship grants recipients
- Annual report development and responding to any issues raised in EPA's annual review of the program
- Leveraging analyses (and management if the Fund leverages)

Clean Water Needs Survey

- Participation in Needs Survey study design
- Needs Survey Training
- Survey data collection and validation
- Survey data entry and validation